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FM AMEMBASSY ROME

TO RUEHNO/USMISSION USNATO PRIORITY 2832
RHEHNSC/WHITE HOUSE NSC WASHDC PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY 4435
INFO RUEHROV/AMEMBASSY VATICAN PRIORITY 0522
RUEHFL/AMCONSUL FLORENCE PRIORITY 1910
RUEHMIL/AMCONSUL MILAN PRIORITY 7960
RUEHNP/AMCONSUL NAPLES PRIORITY 2046
RUEHC/SECSTATE WASHDC PRIORITY 6597

C O N F I D E N T I A L SECTION 01 OF 03 ROME 003167

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USEU/USNATO PLEASE PASS TO DNSA ELLIOTT ABRAMS.

E.O. 12958: DECL: 11/22/2016

TAGS: PGOV XF AF IR IZ LE IT

SUBJECT: ITALY SCENESETTER FOR DNSA ELLIOTT ABRAMS

REF: A. ROME 3160

1B. WHITE HOUSE 212139ZNOV06

Classified By: A/Political M/C Jonathan R. Cohen for reasons 1.4 (b) and (d).

1. (U) Embassy Rome warmly welcomes the visit of Deputy National Security Advisor for Global Democratization Strategy and Deputy Assistant to the President Elliott Abrams. Please find below background information to serve as a scenesetter for the visit. Country Clearance sent REFTEL A.

Summary

12. (SBU) Early press predictions that Center-Left leader Romano Prodi's government was unstable and would fall quickly now appear alarmist, though Prodi faces a difficult challenge this fall as he must pass a fiscally tight budget to meet EU budget constraints.

13. (C) The Prodi Government committed almost 3,000 troops to an enhanced UNIFIL force in Lebanon, will assume operation command of UNIFIL in February 2007, and pledged 30 million euros for Lebanon at the Stockholm donors conference. In Iraq, PM Prodi has announced plans to withdraw all Italian troops by the end of 2006. However, the Prodi government pledged \$30 million for civilian reconstruction efforts and will provide NATO gendarme police training in Iraq. Italy seeks to maintain its strong influence in the Balkans and is an enthusiastic supporter of initiatives to integrate the former Yugoslavia into EuroAtlantic structures. Italy remains one of our top security partners, hosting over 14,000 U.S. military personnel and their families at Italian bases, including forces that have deployed from Italy to Afghanistan and Iraq (and have since returned.) The GOI under Prodi has sought to play a role in many international crises and hopes its leadership in Lebanon will help give it a seat at the table on other important global issues like Iran, Afghanistan and the Middle East Peace Process. On Iran, Italian officials have told us consistently that Italy will support a sanctions regime passed by the UN even though sanctions would significantly affect Italy's bottom line--Italy is Iran's second largest trading partner in the EU. End Summary.

Prodi Stands Despite Early Predictions

14. (SBU) Prodi leads a diverse coalition of allies ranging from centrist-oriented Catholic parties to radical communists. During the election campaign, the center-left

coalition was often plagued by internal disputes, with the radical-left assuming an increasingly high-profile role. Radical left parties scored significant gains, winning roughly 12 percent of the vote and capturing 38 of the potential 158 center-left seats in the Senate, making them essential to the Prodi government. Internal Coalition disputes continue to be rampant. Nevertheless, Prodi has been able to hold his coalition together, passing controversial legislation supporting Italy's military to Afghanistan despite far-left objections. Many, moderates within the coalition agree the government as a whole is being drawn too far to the left and that next year could bring a re-assessment of coalition political strategy.

Significant Economic Handicaps and a Budget Battle

¶15. (SBU) High public debt and consistent budget deficits, rising social welfare costs, persistent unemployment, and a stagnant economy all limit Italy's financial ability to increase or sustain Italy's overseas missions. The current budget has reduced foreign assistance by 27 percent and defense spending by ten percent (to about 0.90 percent of GDP), well below the NATO two percent benchmark. Peacekeeping funding, carried as a separate line item outside the budget, was cut by 20 percent for 2006. These economic handicaps, combined with a legacy of public debt, have forced Prodi to introduce an austerity budget for 2007 that has heightened tensions within his coalition. The political battle to pass the budget will be the most important test of the strength of Prodi's government.

Taking a High-Profile Role on Lebanon

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¶16. (U) Despite public differences with the U.S. on Iraq, Italy has played a leading role in international efforts to stabilize Lebanon. In July, at the request of the U.S., Italy hosted an international conference attended by Foreign Ministers from 20 nations and international organizations to discuss the international community's role in resolving the current crisis in Lebanon. The discussion focused on support for an international stabilization force, the need for an urgent and sustainable cease-fire, humanitarian concerns, and the reconstruction of Lebanon. Immediately after the conference, Italy pledged to contribute 3,000 soldiers to an enhanced UNIFIL. Italy will take over command of the UNIFIL forces on the ground early next year and commands the UNIFIL Planning cell in New York.

Shift to Civilian Cooperation in Iraq

¶17. (U) Italy, with approximately 1,600 troops located in Dhi Qar Province in the British sector, was at one time the third largest troop contributor in Iraq after the U.S. and UK but will withdraw all remaining troops by end 2006. Before the April elections, the Berlusconi government announced a timetable for the drawdown of Italian troops with the aim of repatriating all by year end (with the exception of trainers in the NTM-I) and transforming the mission into a civilian one. When Prodi's government first took office they announced a full withdraw from Iraq, including their civilian PRT. After intense senior level USG engagement, the Italians agreed to leave a civilian presence, called URS (Unit for Reconstruction Support) which is moving to Tallil Air Base within the protective perimeter of US forces once Italian troops depart.

Seeking a Broader Role in the Middle East

¶18. (U) Italy is a member of the EU, NATO, G8, and will soon rotate onto the UN Security Council. The GOI under Prodi has

sought to play a role in many international crises and hopes its leadership in Lebanon will help give it a seat at the table on other important global issues like Iran, Afghanistan, and the Middle East Peace Process. In a recent visit to Lebanon, Prodi reiterated his government's belief that the key to long-term stability in the region is finding an equitable solution to the Israel-Palestinian conflict, a solution that is guaranteed by the international community, and the Italians would like to help make that happen.

¶9. (C) Italian MFA officials have taken pains to distance Italy from the so-called Spanish-French-Italian Middle East Peace Initiative. They said that while the MEPP is a priority for Italy, it was crucial to coordinate any such initiative carefully; first within the EU, then with the U.S., then with Israel and finally with moderate Arab countries. FM Massimo D'Alema publicly distanced Italy from the Spanish-French announcement, saying Italy "appreciated" the Spanish-French effort, but "we want a European initiative, not just the initiative of a few countries." Similarly, MFA officials said it should first be discussed in the so-called Quint (France, Spain, Italy, UK, Germany) format; Italy hosts the next meeting of the Quint just before your arrival on Friday, November 24 and plan to put the issue on the agenda. PM Prodi has publicly noted the need for "concrete measures to reduce tension and build confidence between the parties."

Iran

¶10. (C) Despite not being a member of the core group of nations seeking to resolve the current impasse over Iranian nuclear ambitions, Italy has told us repeatedly that Italy will support a sanctions regime passed by the UN even though sanctions would significantly affect Italy's large trade/investment exposure there. Senior officials have cautioned that although unavoidable, moving forward with sanctions will set in motion a process of escalation whose outcome is not predictable. Senior Italian officials believe the key issue for Iran is not the nuclear one; it is U.S. recognition and engagement. Italy wants to be consulted on Iran policy given that they are Iran's second largest trading partner in the EU, and will soon join the UNSC the Italians

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are grateful that we have begun to include them in consultations.

Holding Steady in Afghanistan

¶11. (U) Italy is among the biggest contributors to NATO's ISAF mission in Afghanistan maintaining an average of 2,000 troops in Kabul and Herat, where Italy commands the western sector of the country. However, pressure from the far left and a public perception that the military mission in Afghanistan is failing will keep the government resistant to engagement in offensive combat operations or deployment beyond the Kabul and Herat areas. Refunding the Afghan mission will be a political challenge for the Prodi government again in December. The government has pledged to increase development assistance in 2007. Recently Foreign Minister Massimo D'Alema has been calling for a new international strategy in Afghanistan that would increase development assistance and involve the EU, UN and neighboring countries, including Iran.

Maintaining Strong Influence in the Balkans

¶12. (C) Italy is a member of the six-nation Contact Group that leads international engagement in the Balkans. Italy has participated in every Balkan peacekeeping operation in the region since the breakup of the former Yugoslavia. Currently, Italy leads the EU police force in Bosnia, the successor to the NATO-led SFOR peacekeeping force and last

year commanded the NATO-led KFOR force in Kosovo. In addition to peacekeeping, Italy has contributed to the political, economic and infrastructure development of the war-torn region and has been among the most enthusiastic supporters of integrating the countries of the former Yugoslavia into the EuroAtlantic community.

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